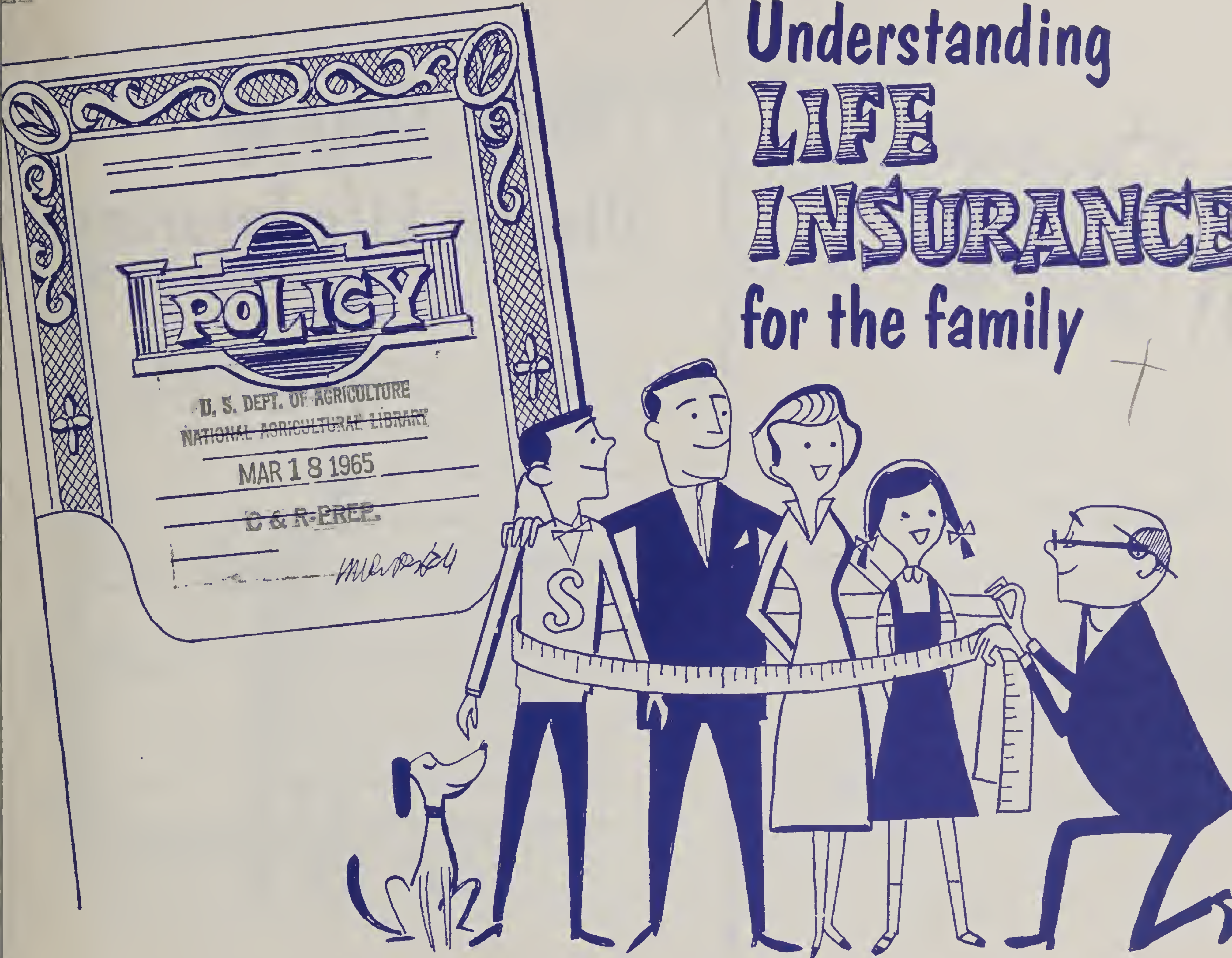
# Understanding LIFE INSURANCE for the family



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# Words Used to Discuss Life Insurance

**BENEFICIARY**—the person named in the policy to receive the money when the insured person dies.

**CASH VALUE** is the money you get back if you give up your policy.

**MATURITY**—when the face value becomes payable.

**FACE VALUE**—the amount of insurance mentioned in the policy.

**GRACE PERIOD**—the time you have between the date the premium is due and the date the policy can be canceled for nonpayment.

**LOAN VALUE**—the amount you may borrow against your policy. You may borrow against this value and continue a part of the protection at the same time. The loan value is usually the same as the cash value.

**POLICY**—the legal contract between you and the insurance company.

**PREMIUM**—the regular amount you pay for your insurance.

**SETTLEMENT OPTIONS**—different ways that money from a life insurance policy can be paid by the insurance company.

# Understanding Life Insurance


## What is Life Insurance?

Life insurance can help you provide a fund for survivors. It also can be a way to save money. You make payments to an insurance company. A legal contract, called a policy, states what the company will do and when. It tells how much money the company will pay you or your beneficiaries under various conditions.

Families want and need as much protection as they can get for their insurance dollars.

First protect the family against possible loss of income. It is wise to buy life insurance on the person earning the money. Life insurance can help protect dependents if the wage earner dies.

Building savings for retirement or education for children comes after buying protection for the family.

# Kinds of Life Insurance

There are four basic kinds of life insurance policies. They are:

- term
- straight life (also called ordinary life or whole life)
- limited payment life
- endowment

Other kinds are variations or combinations of these or have special features added.

A family usually needs the most protection when children are young. Term and straight life insurance are more suitable than other types for the young family.

For example, at age 30, $100 a year will buy about $12,500 of term insurance; $4,710 of straight life; $3,030 of 20-year payment; and $2,050 of 20-year endowment.

Generally a medical examination is required to get insurance.

You may pay premiums once a year, twice a year, every three months, once a month, or once a week. You save money if you pay once or twice a year.

Premiums are based on the age of the insured person at the time the policy is issued. Each time you renew a policy, you pay a higher rate, because you have grown older.

**TERM INSURANCE** offers the lowest cost protection for a period of time. It covers a certain number of years—usually 1, 5, or 10. Payment is made by the company if the insured dies during that time. If death does not occur during this time, protection ends unless a new policy is taken out.

You may want to select a term insurance policy with a "renewable clause." This means you can renew your policy without another medical examination.

Some companies will not renew term policies after you are 50 or 60 years of age. Of course, you are likely to have

fewer dependents at this age. Your life insurance needs are less.

You may also want to choose a term insurance policy with a "convertible clause." This permits you to change it later to some form of permanent life insurance such as straight life, if you wish.

Term insurance has no "cash" or loan value. You cannot borrow against it.

**STRAIGHT LIFE INSURANCE** is often called ordinary or whole life. The face value of the policy is paid only when the insured person dies. The premium rate—

- is higher than the rate on a term policy
- is lower than the rate on any other permanent policy
- depends on your age at the time you buy your policy
- stays the same each year

This policy builds a *cash value*. The value increases the longer the policy is kept. Also, this policy builds up a loan value.

You may borrow against this value while continuing your insurance. Should you decide to give up the policy, you can take the cash in a lump sum, as income, or as paid-up insurance. The cash value is based on the number of years you have been paying.

If the insured person dies, the beneficiary is paid the face value. If there is a loan at the time of death, the money borrowed will be subtracted from the face value of the policy. The beneficiary will receive what is left.

**LIMITED PAYMENT LIFE POLICIES** are different from straight life in several ways:

First, premiums are paid a limited number of years—10, 20, or 30. Or you may pay premiums until you reach a certain age,. usually 60 or 65 years.

Second, your annual premium rate is higher than for straight life. The reason is that you pay premiums only a certain number of years.

Third, the cash value of your policy increases faster since the premiums are higher.

Higher premium types of insurance may be a disadvantage. A young family man may not be able to buy as much protection. If he pays more dollars per thousand, he cannot buy as many thousands. A better choice for him would be:

- term insurance, or
- term insurance combined with straight life, or
- straight life insurance.

**ENDOWMENT POLICIES**—the face value is paid to the insured person if he is living when the policy matures. He may receive the money in one cash payment, or in installments over a period of time. If he dies while receiving installment payments, any amount remaining will be paid to his estate.

Premiums are paid a certain number of years or to a certain age. Endowment policies cost more than other types of life insurance. Rates are higher during the tim[illegible]ay. If the insured person dies before the policy matures, th[illegible]ficiary receives the face value of the policy.

The same amount of premium will buy a larger amount of ordinary life insurance, thus more protection. At age 22, the premium for $1,000 on:

- a 20-year endowment policy is about $47 a year.
- an ordinary life policy is about $15 a year.

If the insured person dies, either policy would pay the beneficiary $1,000. Therefore it may not be wise for the family that needs income protection to buy an endowment policy.

# Types of Life Insurance Policies

Approximate premium rates per $1,000 of each of four types of life insurance policies*

| Bought at age | *Term* 5-year renewable and convertible | *Straight Life* | *Limited Payment Life* (Paid up at age 65) | *Endowment* 20-year |
|---|---|---|---|---|
| 18 | $ 8.65 | $15.80 | $16.90 | $48.85 |
| 20 | 8.75 | 16.50 | 17.70 | 48.90 |
| 25 | 8.90 | 18.45 | 20.15 | 49.05 |
| 30 | 9.25 | 21.00 | 23.60 | 49.40 |
| 40 | 12.20 | 28.50 | 34.75 | 51.40 |
| 50 | 20.10 | 45.65 | 60.15 | 56.55 |

* Rates shown are approximate premium rates for life insurance protection for men. Rates for women are somewhat lower.

(Rates of participating policies would be slightly higher, but the cost would be lowered by annual dividends. Non-participating policy rates would be somewhat lower than those shown and no dividends would be paid. Source: Institute of Life Insurance, 1964.)


# Other Policies

There are many combinations of the four basic kinds of life insurance.

**THE FAMILY INCOME POLICY**—It combines term insurance with straight life. The term insurance part pays the beneficiary a certain amount each month until the end of the specified time if the insured person dies before that.

For example, the policy may be for 20 years. The insured person dies in 15 years. His beneficiary will receive payments for 5 years. If the insured lives beyond the 20-year period, the term insurance pays no benefits.

Protection under the straight life part of the policy continues. When the insured person dies, the beneficiary will receive the face value of that portion of the policy.

**MORTGAGE INSURANCE**—This is really term life insurance. It protects the lender and the borrower's family. Should the insured person die before the mortgage is paid off, the insurance will pay part or maybe all of the debt.

**CREDIT LIFE INSURANCE**—Most credit life insurance is of the term type. The length of the term is the length of the loan being insured.

It is used to pay off the insured person's debts in case he dies.

Sometimes contracts have the clause "free life insurance is included." Investigate to see how "free" it is. What are you really paying for it?

# Special Clauses

Insurance policies sometimes have special clauses added. These give you certain added benefits. They will also increase the cost. Sometimes these clauses are part of the original policy. Their cost is included in the basic premium. In other cases they are added to the policy at an extra charge.

**PREMIUM WAIVER.** Under this clause the insured person does not have to pay premiums while he is totally disabled.

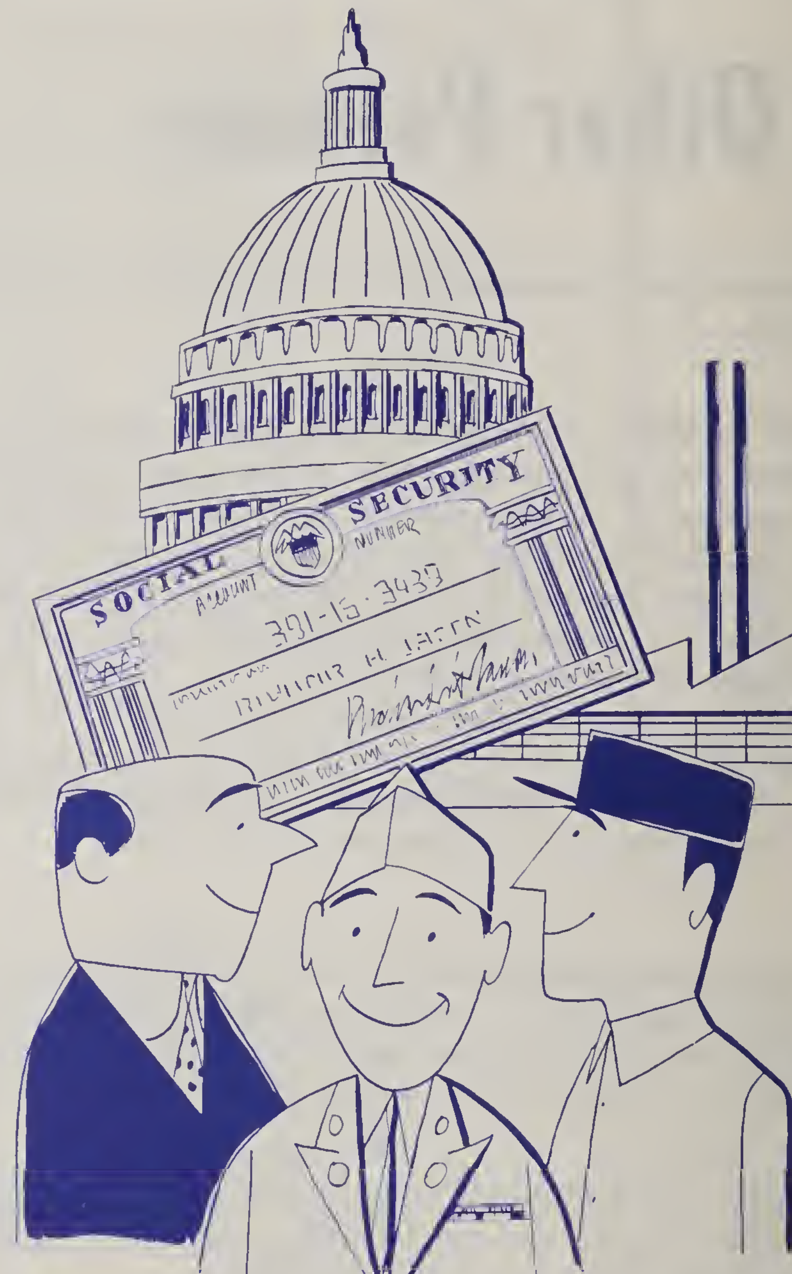
**DOUBLE INDEMNITY CLAUSES.** The beneficiary will receive double the face value in case the insured dies accidentally.

**AUTOMATIC PREMIUM LOAN**—provides that if you miss paying the premium, the company will automatically pay it for you from values in your policy.

# Other Protection

Before you buy life insurance, think about other protection you may already have:

- Social Security
- Workmen's Compensation
- union and/or employer's benefits
- veteran's insurance, pension, or other benefits
- retirement from your job
- savings and investments
- other




**SOCIAL SECURITY** is the basic protection program for most families. If you work under Social Security a tax will be deducted from your pay check by your employer. He will match this amount. Then he sends his tax money and yours to the Government.

A worker under Social Security can get certain benefits for retirement and for survivors. Age, disability, and other factors affect payments. Talk to the people at your local Social Security office to learn how your own family may benefit.

**WORKMEN'S COMPENSATION**—Premiums are paid by the employer. Compensation is paid by the insurance company or State. The employee pays nothing. The employer carries insurance to protect the worker while on the job. This provides medical expenses, death and disability benefits.

**UNION AND/OR EMPLOYER BENEFITS**—May include life insurance paid by the union or employer.

**VETERAN'S ADMINISTRATION**—Provides death and disability benefits for those who qualify.

# Ways You Can Buy Life Insurance

**GROUP LIFE INSURANCE** covers members of a group. They usually are the employees of a business. No medical examination is required. Generally cost is low and everyone pays the same premium. Sometimes the employer pays part or all of the premium.

It is usually term insurance. The protection may end when the employee leaves the job. Sometimes term insurance can be changed to a permanent type when an employee leaves his job. This has to be done within a certain time after he leaves.

**INSURANCE FROM LIFE INSURANCE COMPANIES** is sold by company agents. A medical examination is usually required. Premiums may be paid once a year, twice a year, every 3 months, or every month.

**INDUSTRIAL INSURANCE.** You can buy straight life, limited payment, or endowment policies. Usually the policy is small, from $500 to $1,000. Premiums are collected every week or each month. Usually on pay day an agent collects at the home or place of work of the insured person. Because of the extra work of collecting and the extra paperwork, this kind of insurance is very costly.

**FRATERNAL ORGANIZATIONS** offer ordinary life insurance to their members.

**SAVINGS BANK LIFE INSURANCE** is sold by mutual savings banks in some States.

Types available are the same as those sold by regular insurance companies. The policies offer dividends and cash and loan values.

The cost of this type is lower. One reason is that there is no agent's commission.

**ARMED FORCES LIFE INSURANCE,** held by war veterans, is no longer available. Veterans will be wise to keep as much of this insurance as they can afford. The cost to them is low. The Veterans Administration can tell you about its many advantages.

# If You Stop Paying Premiums

If you have a *term policy,* your insurance will stop if you stop paying premiums. Permanent types of insurance build up cash surrender value. If you decide to stop paying premiums, you can make certain choices of settlements. These are called "non-forfeiture" values.

If you stop paying premiums before the time specified in your policy, you give up the policy. You have several choices for settlement:

**LUMP SUM PAYMENT**—You may take the cash value all at once. You need to plan how to use this money.

**INCOME PLAN**—The cash value is left with the company. The company offers certain ways to pay you the money. You may select the one that fits your needs.

**REDUCED PAID-UP LIFE INSURANCE**—You change your policy for a lower face value. You pay no more premiums. For example, you bought a whole life policy at age 35; at 65 you can change it to a paid-up policy. But the face value will be about 70 percent of the original. Your beneficiary will receive this smaller amount upon your death.

**EXTENDED TERM INSURANCE**—You pay no more premiums. Your insurance continues at the face value of your policy. It will continue only for a certain number of years. At the end of this time, all protection stops.

# Settlement Options

These are some of the different ways that money from life insurance policies can be paid.

**LUMP SUM PAYMENT** of the face value of the policy upon death of the insured person.

**GUARANTEED INCOME**

***Interest***—The face value or principal is left with the company until the family asks for it. In the meantime, the family receives the interest money. Usually the guaranteed interest is 2½ percnt. For $1,000 insurance, this is $25.00 a year. For $5,000, the interest would be $125 a year.

***Payments:***

*Amount option*—The company pays a certain amount each month as long as the money lasts. The total amount to be paid might be $5,000. Then payments of $50 a month are paid for 9 years and 4 months.

*Time option*—The insurance company will pay a monthly income for a certain number of years. Total amount to be paid might be $5,000. If you wanted this amount to be paid in 5 years, it would be around $89 a month.

*Lifetime payment option*—A regular amount of money is guaranteed for the beneficiary's lifetime. For a man 65 years old, this might be around $30 a month for life on a $5,000 policy.

***A Combination***—You may wish a part of the money to be paid in a lump sum. The rest might be paid in monthly payments for a certain length of time.

# Pointers for Policyholders

• **READ YOUR INSURANCE POLICY**

Be sure you have a good general understanding of your policy.

Don't hesitate to ask questions. Ask your agent, or write the company or your State insurance department.

• **KEEP YOUR POLICY IN A SAFE PLACE**

Let your beneficiaries know where your policies are. Your beneficiary must turn the policy over to the company and give proof of your death before collecting on insurance.

If your policy is lost or destroyed your company will issue you another copy.

• **KEEP YOUR INSURANCE COMPANY INFORMED OF YOUR ADDRESS**

• **DISCUSS YOUR INSURANCE WITH YOUR FAMILY AND OTHER BENEFICIARIES**

It is wise to have them share in planning the life insurance program. Also discuss each addition or change in the program with them.

It is a good idea to write a letter (put in in a safe place) describing your insurance policies. State any choices the beneficiary may have in settlement. Point out that your life insurance agent will help your beneficiary fill out the "proof of claim" papers.

• **REVIEW YOUR INSURANCE PROGRAM PERIODICALLY**

The wise person will review his insurance from time to time, particularly when there is a change in his family; for example, when his children are grown and have left home.

Insurance that was sensible for you at age 20 may no longer fit your needs when you are 40 or 60.

Get help when you rearrange your insurance program to meet your changing needs. Able insurance men, bankers, or lawyers are often helpful.

# General Rules About Life Insurance

**• CONCENTRATE LIFE INSURANCE ON THE FAMILY WAGE EARNERS**

**• USE THE LESS EXPENSIVE TYPES OF LIFE INSURANCE**
When there are young children, term or straight life, or family income plan on the wage earner are good buys. You can get two or three times as much straight life as endowment insurance for the same premium. Endowment and retirement policies offer higher cash values but less protection for the same premium cost.

**• DON'T DROP ONE POLICY TO BUY ANOTHER WITHOUT CAREFUL STUDY.** You'll probably pay a higher rate on the new policy. Rates increase as the insured person grows older. Some older policies have benefits that newer ones don't.

**• WHEN DECIDING ABOUT YOUR LIFE INSURANCE CONSIDER—**

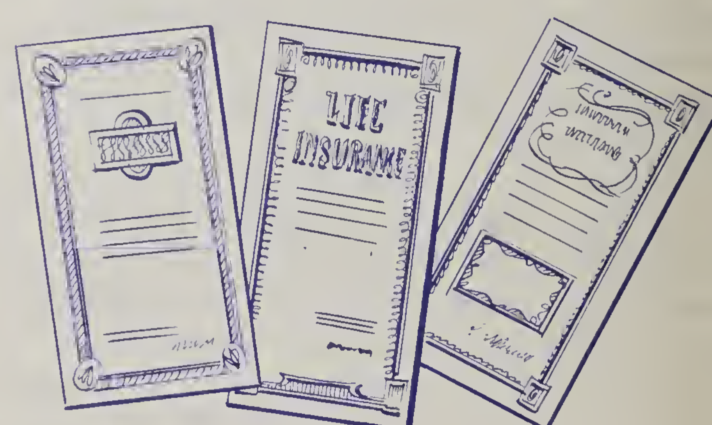
- Your family's needs.
- Other protection such as Social Security, veteran's benefits, etc.
- What amount of insurance you can afford.
- Other types of insurance protection you already have.
- Other kinds of savings you will have.

## Remember .....

- The necessities of living for survivors should be considered first.
- Social Security and the Veterans Administration may provide a lump sum toward burial expenses.

## When You Buy Insurance

- **Think before you buy**
- **Plan your insurance program**
- **Study your policy**
- **Buy only what you can afford**





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